



SECURITIES AND EXCHANGE COMMISSION

[SEC File No. 270-655, OMB Control No. 3235-0717]

Submission for OMB Review; Comment Request; Extension: Exchange Act Rule 3a71-3

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Securities and Exchange Commission

Office of FOIA Services

100 F Street, NE

Washington, DC 20549-2736

Notice is hereby given that pursuant to the Paperwork Reduction Act of 1995 (“PRA”) (44 U.S.C. 3501 et seq.), the Securities and Exchange Commission (“Commission”) has submitted to the Office of Management and Budget (“OMB”) a request for approval of extension of the previously approved collection of information provided for in Rule 3a71-3 under the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.).

The compliance date for Rule 3a71-3 was in November 2021. The representations contemplated by Rule 3a71-3 will be relied upon by counterparties to determine whether such transaction is a “transaction conducted through a foreign branch” of a U.S. bank counterparty, as defined in Rule 3a71-3(a)(3)(i), as well as to verify whether a security-based swap counterparty is a “U.S. person.” Counterparties to security-based swap transactions may voluntarily give such representations to one another to reduce operational costs and allow each party to ascertain whether such transaction is subject to certain Title VII requirements. Because any representations provided to counterparties under Rule 3a71-3 will constitute voluntary third-party disclosures, the Commission will not typically receive these disclosures.

The Commission believes that the representations contemplated by Rule 3a71-3 will, in most cases, be made through amendments to the parties’ existing trading documentation (e.g., the schedule to a master agreement). The Commission believes that, because trading relationship

documentation is established between two counterparties, whether a counterparty is able to represent that it is entering into a “transaction conducted through a foreign branch” or that it does not meet the criteria of the “U.S. person” definition will not change on a transaction-by-transaction basis and, therefore, such representations will generally be made in the schedule to a master agreement, rather than in individual confirmations. The Commission anticipates that counterparties may elect to develop and incorporate these representations in trading documentation following the effective date of the Commission’s security-based swap regulations, rather than incorporating specific language on a transactional basis. The Commission believes that counterparties will be able to adopt, where appropriate, standardized language across all of their security-based swap trading relationships. The Commission believes that this standardized language may be developed by individual respondents or through a combination of trade associations and industry working groups.

a. Representations regarding a “transaction conducted through a foreign branch”

Pursuant to Rule 3a71-3, parties to security-based swaps are permitted to rely on certain representations from their counterparties when determining whether a transaction falls within the definition of a “transaction conducted through a foreign branch.” Based on its understanding of the current state of the security-based swap market, the Commission staff estimates that nine entities will incur burdens under this collection of information, whether solely in connection with the business conduct requirements or also in connection with the application of the de minimis exception.

The Commission estimates the one-time third-party disclosure burden associated with developing representations under this collection of information will be, for each U.S. bank counterparty that will make such representations, no more than five hours, and up to \$2,000 for the services of outside professionals. Across the nine respondents, this amounts to approximately 45 hours, or 15 hours per year when annualized over three years. This estimate assumes little or no reliance on standardized disclosure language.

The Commission expects that the majority of the burden associated with the new disclosure requirements will be experienced during the first year as language is developed and trading documentation is amended. The Commission further believes that the ongoing third-party disclosure burden associated with this requirement will be 10 hours per U.S. bank counterparty for verifying representations with existing counterparties, for a total of approximately 90 hours across the nine respondents.¹

The Commission believes that some of the entities that will comply with Rule 3a71-3 will seek outside counsel to help them develop new representations contemplated by Rule 3a71-3. For PRA purposes, the Commission assumes that all nine respondents will seek outside counsel for the first year only and will, on average, consult with outside counsel for a cost of up to \$2,000. The Commission also assumes that none of the nine respondents will seek outside legal services for year two or year three. Thus, the Commission expects the aggregate cost to the nine respondents over the three-year period will be \$18,000, or \$6,000 per year when annualized over three years. The Commission expects the total labor cost per respondent will be approximately \$666.67 when annualized over three years.

b. Representations regarding U.S.-person status

Pursuant to Rule 3a71-3(a)(4)(iv), persons may rely on representations from a counterparty that the counterparty does not satisfy the criteria defining U.S. person set forth in Rule 3a71-3(a)(4)(i), unless such person knows or has reason to know that the representation is not accurate. Commission staff has estimated, based on its understanding of OTC derivatives markets, including the domiciles of counterparties that are active in the market, that approximately 3,000 entities will provide representations that they do not meet the criteria necessary to be U.S. persons.

¹ The Commission staff estimates that this burden will consist of 10 hours of in-house counsel time for each security-based swap market participant that will make such representations. See Business Conduct Adopting Release, at 30097, note 1581.

As with representations regarding whether a transaction is conducted through a foreign branch, the Commission estimates the maximum total third-party disclosure burden associated with developing new representations will be, for each counterparty that will make such representations, no more than five hours and up to \$2,000 for the services of outside professionals. Across the 3,000 respondents, this aggregates to a maximum of approximately 15,000 hours, or 5,000 hours per year when annualized over three years. This estimate assumes little or no reliance on standardized disclosure language.

The Commission expects that the majority of the burden associated with the disclosure requirements will be experienced during the first year as language is developed and trading documentation is amended. After the new representations are developed and incorporated into trading documentation, the Commission believes that the annual third-party disclosure burden associated with this requirement will be no more than approximately 10 hours per counterparty for verifying representations with existing counterparties and onboarding new counterparties. Across the 3,000 respondents, this aggregates to a maximum of approximately 30,000 hours.

The Commission believes that some of the entities that comply with Rule 3a71-3 will seek outside counsel to help them develop new representations. For PRA purposes, the Commission assumes that all 3,000 respondents will seek outside legal for the first year only and will, on average, consult with outside counsel for a cost of up to \$2,000. The Commission also assumes that none of those 3,000 respondents will seek outside legal services for year two or year three. Thus, the Commission expects that the aggregate cost over those 3,000 respondents over the three-year period will be \$6 million, or \$2 million per year when annualized over three years. The Commission expects the total labor cost per respondent will be approximately \$666.67 when annualized over three years.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information under the PRA unless it displays a currently valid OMB control number.

The public may view background documentation for this information collection at the following website: www.reginfo.gov. Find this particular information collection by selecting “Currently under 30-day Review - Open for Public Comments” or by using the search function. Written comments and recommendations for the proposed information collection should be sent by **[INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]** to (i) MBX.OMB.OIRA.SEC_desk_officer@omb.eop.gov and (ii) David Bottom, Director/Chief Information Officer, Securities and Exchange Commission, c/o John Pezzullo, 100 F Street, NE, Washington, DC 20549, or by sending an email to: PRA_Mailbox@sec.gov.”

Dated: October 26, 2022.

Sherry R. Haywood,

Assistant Secretary.

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